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# ONTARIO PENSION BOARD

## ANNUAL REPORT

1994

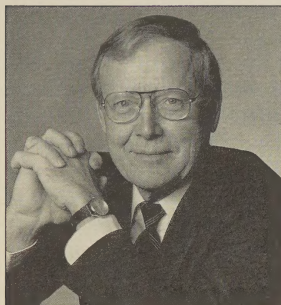


**In 1994 we served the needs of over  
88,000 Ontario Public Servants  
and 40,000 Pensioners**



## **HIGHLIGHTS OF THE PUBLIC SERVICE PENSION PLAN**

- The Public Service Pension Plan (the "PSPPlan") is a defined benefit pension plan established under the Public Service Pension Act (Ontario), and subject to the Pension Benefits Act (Ontario) and the Income Tax Act (Canada).
- Annual pensions are calculated as 2% of the best, consecutive, 60 months average salary, multiplied by the member's number of years of credit in the PSPPlan. The pension is reduced on receipt of a disability pension from the Canada Pension Plan and at age 65.
- The PSPPlan is a fully indexed plan, which is subject to a limit of 8% in any one year, with any excess carried forward.
- Survivor benefits of 60% of the monthly pension are payable.
- The PSPPlan provides an opportunity to purchase service for prior employment with the Province of Ontario while not a member of the PSPPlan by paying only the employee contribution (provided that eligibility requirements are met).
- The PSPPlan currently provides an early retirement program which allows an unreduced pension benefit for those members whose age and years of credit in the PSPPlan total 80 years. This program is only available to members if they qualify prior to April 1, 2000.



## A MESSAGE FROM THE CHAIRMAN

1994 was an eventful year in several ways, from investments to Plan split, to major systems implementation and to staffing after the split.

There has been substantial turbulence in the world-wide bond markets with the largest drop in bond prices seen in several years. The equity markets also under performed. However, our conservative policy has not changed. Our priority remains preservation of capital with a reasonable return over the long term. Our responsibility is to ensure that the money is there to pay pensions to our members when the time comes. We are not likely to achieve the highest return or the lowest; we aim for a reasonable return without taking high risks.

We have been negative on real estate for the past several years; however, early in the year we became convinced that retail sales would improve and that it was a good time to take advantage of a window of opportunity. On June 1, 1994 we purchased interests in six regional shopping centres. We obtained a 50% interest in four centres, located in St. Catharines, two in Vancouver and Halifax, and a 100% interest in two centres in Ottawa and Calgary. These purchases have turned out to be very solid investments and will strengthen the performance of the fund. On an annualized basis these investments have returned an aggregate 8.59% since their acquisition.

In view of the poor market conditions that existed during 1994, our investment return for

1994 was 6.65%, substantially below our performance of the prior four years. Our average return over the five years since our creation was 11.08%.

1995 will be a year of consolidation. We do not look for great performance in the bond and equity markets. However, we are keeping a substantial amount of our funds liquid in order to be able to take advantage of market opportunities, if and when they arise.

In June the Government passed legislation dividing the Public Service Pension Plan, creating a new plan for members of the Ontario Public Service Employees' Union (OPSEU) and certain other unionized non-management people. This gave the newly-created OPSEU Pension Trust the care and administration of over \$4 billion in assets. This newly-created plan will be administered independently by a separate Board of Directors.

The split of the Plan was made retroactive to December 31, 1992, the date of the latest complete formal actuarial valuation of the Plan, although the assets were not required to be segregated until physical transfer was made to the OPSEU Plan. The job of calculating the assets and liabilities applicable to the OPSEU Plan and to the remaining Plan has been horrendous. The OPSEU Pension Trust retained Price Waterhouse as an independent third party to perform the calculations, including an allocation of activity in the Public Service Pension Plan, to December 31, 1994. Our auditors, Ernst & Young, are providing independent professional support to the Board in connection with the Plan split.

The OPSEU Plan received \$4.381 billion in cash and bonds. The requirement to make the transfer presented an enormous challenge to the Board to ensure that assets were available for transfer. Early in 1994, when the government first indicated its intention to divide the Plan, your Board commenced to implement plans to be in a



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position to turn over the required funds. In view of the poor state of the equity and bond market that followed, this turned out to be a very wise decision.

In all, it is estimated that we will be turning over the files for 63 thousand employees and pensioners. The Ontario Pension Board will retain the files for 28 thousand employees and 39 thousand pensioners. The Board will retain the responsibility for paying pensions to all members who retired prior to January 1, 1993.

New premises for the OPSEU Pension Trust were required and it was decided to divide the premises currently being leased by the Ontario Pension Board. Arrangements were made whereby the OPSEU Pension Trust leased the 12th floor at One Financial Place and the Ontario Pension Board leased the 11th floor.

A significant factor in the Board's ability to meet its objective has been its employees. Up to December 31, 1994 the OPSEU Pension Trust engaged 36 of our former employees, representing 30% of our total staff strength. This has resulted in a substantial restructuring of our staff to meet our revised responsibilities and workload. Our future staffing requirements are currently being assessed.

The Ontario Pension Board has been developing a new computer system called PRISM (Pension and Retirement Information System). This system will enhance our service to our members and pensioners by providing the Board with easier and faster access to comprehensive data, thereby improving our response time. The first phase came on stream late in the year.

The Plan split and the issues of conversion from the employees' databases made the already complex system implementation even more challenging. The project team of Information Technology, Plan Administration and Finance staff members met this challenge. Benefit Coordinators, Payroll Clerks from all the Ministries, Agencies, Boards and Commissions have been and will be continuing to work closely

in clearing all rejected data items. In addition, the employers provided tremendous support throughout the project. In particular, Management Board Secretariat, several Ministries and all the Agencies, Boards and Commissions were actively involved in the system development and implementation. We thank all participants of the PRISM project for helping us to achieve a major milestone. We have made arrangements with the OPSEU Pension Trust to work cooperatively to complete the development of PRISM.

The continued development of PRISM will replace the existing antiquated pensioner payroll system, PENPAY, which is still being maintained and operated by the Province, and will integrate the pension payroll with the newly implemented PRISM member database. This will result in the instantaneous update of changes to pensioner information, more detailed payroll reporting and faster turnaround times for the majority of requests received from our pensioners.

The Plan Administration Department had another challenging year, with a high volume of incoming new cases, significant involvement with the development and implementation of PRISM and additional workload caused by the Plan split. The staff made their best effort to provide a high standard of customer service to our members. The department introduced a new pension estimate service for the members.

As a result of the continued downsizing by Ministries, the Board received 46,500 new cases during the year, which included 1,076 terminations from members who retired under the Ontario Government's early retirement option, the Factor 80 program. Through the efforts of our staff, and cooperation of Benefits Coordinators and payroll staff of the Ministries, Agencies, Boards and Commissions, we completed over 47,100 transactions. This was 3,800 more cases than the 43,300 transactions completed in 1993. These transactions included information requests, new pensions, purchases of credit for prior employment, transfers to and from other employer's plans, terminations of

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membership, and benefits to survivors. Overall, the inventory of cases on hand declined from 8,700 at the beginning of the year to 8,200 by year end.

In addition, the Department handled over 60,000 telephone enquiries and requests from members and pensioners.

With the large number of members considering retirement and termination under the Factor 80 program, there was a need for providing these members with Pension Estimates to enable them to make informed decisions. In May 1994, Plan Administration introduced a new Pension Estimate service. Members can call a dedicated telephone number or write to the Board, providing basic information required for making the calculations. Based on this information and other information available to the Board, the staff prepare and provide the Pension Estimate to the members within 30 days of receiving the request. Over the last eight months, Plan Administration has provided close to 1,000 pension estimates to members.

There have been a number of changes in our Executive ranks this year. James Wilbee, our former President, joined Ontario Hydro to reorganize their employee pension plan. We wish Mr. Wilbee every success in his new position. Leonard Lu, our former Senior Vice President, was appointed President and has done an outstanding job during a very difficult year.

As part of a reorganization to meet our changing responsibilities, Robert Kay was appointed Senior Vice President, Investments, and Jon-Jo Douglas was appointed Senior Vice President, General Counsel and Secretary. Jang Hong, our Treasurer and Director, Administrative Services, retired on December 31, 1994. Our Director of Finance, Sherry MacDonald, C.A. joined the OPSEU Pension Trust. We extend our thanks to Sherry MacDonald and Jang Hong for their contributions to the Board's management. Robert Sycamore, C.A. joined us as Director of Finance and will also assume the additional responsibility for Treasury. Linda Bowden, our Director,

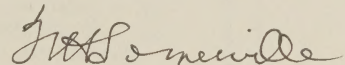
Human Resources, has assumed the added duties of Administration.

There have also been some changes to your Board of Directors. Robert Christie retired at the end of the year. Joseph Regan and Udayan Rege were appointed to the Board effective January 1, 1995. We thank Bob Christie for his excellent service and we welcome Joseph Regan and Udayan Rege as new Board members.

I wish to acknowledge the dedicated service of our Board of Directors and to extend my personal thanks to them all.

As I said earlier, the aforementioned matters have made for a very active and eventful year.

The Plan split, in particular, caused a tremendous disruption and strain on our staff as they continued to provide service to our members and pensioners while carrying out the many tasks required to implement the requirements. I am grateful to Leonard Lu, our President, and his entire staff for this outstanding job in this very unusual and difficult year. On behalf of the Board of Directors, I want to extend our most sincere thanks to all staff.



William H. Somerville  
Chairman





## AUDITORS' REPORT

### To the Directors of the Ontario Pension Board:

We have audited the consolidated statements of net assets available for benefits of the Ontario Pension Board (the "Board") as at December 31, 1994 and 1993 and the consolidated statements of changes in net assets available for benefits for the years then ended. These consolidated financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*Ernst + Young*

Toronto, Ontario  
February 21, 1995

Chartered Accountants



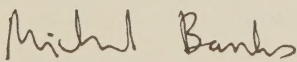
## ACTUARIES' OPINION

### To the Directors of the Ontario Pension Board:

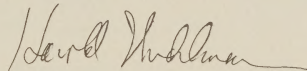
We have prepared the actuarial valuation of the Public Service Pension Plan (the "PSPPlan") as of December 31, 1992, as described in Note 9 of these financial statements. We have also determined the estimated actuarial liability arising from the Factor 80 early retirement program as described in Note 10 of the notes to these financial statements.

We hereby certify that, in our opinion:

- the data provided to us by the Ontario Pension Board are sufficient and reliable for the purposes of our valuations;
- the actuarial assumptions used are appropriate for the purposes of the valuations of the PSPPlan;
- the methods employed are consistent with sound principles established by precedent or by common usage within the actuarial profession, are appropriate for the purposes of the valuation and are consistent with the requirements of the Pension Benefits Act, the Public Service Pension Act, and the Income Tax Act (Canada);
- the valuations have been prepared and our opinions given, in accordance with generally accepted actuarial practice.



Michael D. Banks, F.I.A., F.C.I.A.



Harold M. Nudelman, F.S.A., F.C.I.A.

WILLIAM M. MERCER LIMITED  
February 21, 1995



## CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

(in thousands of dollars)

	1994	1993
<b>ASSETS</b>		
Investments (Note 5)	\$ 11,780,894	\$ 11,186,497
Accrued Income	422,142	429,674
Contributions Receivable	9,098	125,774
Fixed Assets (Note 6)	1,956	2,885
Other Assets	78	712
<b>Total Assets</b>	<b>12,214,168</b>	<b>11,745,542</b>
<b>LIABILITIES</b>		
Income Tax Withheld on Pension Payments	8,027	6,933
Accounts Payable and Accrued Charges	5,906	5,556
Deferred Contributions (Note 8)	17,400	
Transferable to OPSEU Plan (Note 3)	4,380,678	
<b>Total Liabilities</b>	<b>4,412,011</b>	<b>12,489</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 7,802,157</b>	<b>\$ 11,733,053</b>

See accompanying notes

On behalf of the Board:

William H. Somerville  
Chairman and Director

William J. Corcoran  
Vice-Chairman and Director



## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

### For Years Ended December 31

(in thousands of dollars)	1994	1993
<b>INCREASE IN NET ASSETS</b>		
Net investment income (Note 7)	\$ 1,080,774	\$ 1,086,946
Unrealized (decrease) increase in market value of investments	(308,636)	258,728
Contributions (Note 8)	343,321	694,906
<b>Increase in net assets</b>	<b>1,115,459</b>	<b>2,040,580</b>
<b>DECREASE IN NET ASSETS</b>		
Transferable to OPSEU Plan (Note 3)	4,380,678	
Fixed assets transferred to OPSEU Plan	725	
Pensions paid	604,190	513,814
Termination payments and transfers	48,692	31,578
Operating expenses (Note 12)	12,070	12,127
<b>Decrease in net assets</b>	<b>5,046,355</b>	<b>557,519</b>
<b>TOTAL (DECREASE) INCREASE FOR THE YEAR</b>	<b>(3,930,896)</b>	<b>1,483,061</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>11,733,053</b>	<b>10,249,992</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 7,802,157</b>	<b>\$ 11,733,053</b>

See accompanying notes



## Schedule 1

### PROFORMA FINANCIAL AND PLAN DATA FOR 1994

PSPPlan After Transfer of Assets and Liabilities to OPSEU Plan

(in thousands of dollars except for plan statistics)

Proforma 1994  
(Note 3)

#### RESULTS FOR THE YEAR

Net investment income	\$ 690,435
Contributions	213,673
Pensions paid	551,721

#### YEAR END POSITION

Net assets available for benefits	\$ 7,802,157
Accrued pension benefits	9,631,000

#### PLAN STATISTICS

Number of members	27,907
Number of pensioners	39,458

The proforma information contained in this Schedule is adjusted to reflect the division of the Public Service Pension Plan (the "PSPPlan") resulting from the formation of a new plan (the "OPSEU Plan") for the members of the Ontario Public Service Employees' Union ("OPSEU") and certain other unionized non-management employees. The OPSEU Plan assumed responsibility for the accrued pension benefits attributable to the OPSEU Plan membership and was entitled to receive a corresponding transfer of assets from the Ontario Pension Board. Please refer to Note 3 to the financial statements which more fully describes the establishment of the new OPSEU Plan. These proforma amounts reflect the estimated activity in 1994 for the PSPPlan by excluding amounts allocated to the OPSEU Plan under the asset transfer agreement.

Proforma information on operating expenses is not presented, as it is the result of a negotiated allocation of joint expenses which would not be representative of future expenses. The composition of the asset portfolio on a proforma basis is not presented since the asset mix was transitional in nature.



# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **December 31, 1994**

### **1. PUBLIC SERVICE PENSION ACT**

Effective January 1, 1990, the Province of Ontario (the "Province") enacted the Public Service Pension Act, 1990 (the "PSPAct") to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan (the "PSPPlan") are stated in Schedule 1 to the PSPAct. The Ontario Pension Board (the "Board") is the administrator of the PSPPlan.

### **2. DESCRIPTION OF PSPPLAN**

The following is a brief description of the PSPPlan. For more complete information, reference should be made to the PSPAct.

#### **a) General**

The PSPPlan is a contributory defined benefit pension plan and membership is mandatory for most employees who satisfy the eligibility requirements provided in the PSPAct. Under the PSPPlan, contributions are made by the members and the employers. The PSPPlan is registered under the Pension Benefits Act of Ontario, registration number C-006672 and the Income Tax Act (Canada), registration number 0208777.

#### **b) Contributions**

The PSPPlan is integrated with the Canada Pension Plan ("CPP"). Member contributions are 6.2% of the salary on which contributions to CPP are made and 8% on the balance of salary. The employers contribute matching amounts. During 1994, the Province passed the Ontario Public Service Employees' Union Pension Act, 1994 (the "OPSEU Act") which temporarily reduces these contributions (see Note 8).

Ontario Provincial Police ("OPP") members are required to contribute to the PSPPlan an additional 2% of salary which is matched by the employer.

#### **c) Pensions**

A pension is payable at age 65 (or at age 60 for those with pre-1966 pension credits) based on the number of years of credit in the PSPPlan, the average salary during the best consecutive 60 month period, less an offset for amounts received under the CPP. An unreduced pension can be received before age 65 if the member's age and credit total 90 (the "90 Factor") or when the member reaches age 60 and has 20 or more years of credit. The Province amended the PSPPlan in 1993 and 1994 to provide an opportunity for an enhanced retirement opportunity for certain members of the Plan (the "80 Factor") (see Note 10).

OPP members are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

#### **d) Death Benefits**

Benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or pensioner's estate on the death of a member or a pensioner.

#### **e) Disability Pensions**

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the Plan. The amount of the disability pension is dependent on credit and average salary.

f) Termination Payments

Members terminating employment before age 55, who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to another pension plan or to purchase a life annuity.

g) Escalation of Benefits

Pensions in pay and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

### **3. TRANSFERS TO THE OPSEU PLAN**

In April, 1994, the Province and the Ontario Public Service Employees' Union ("OPSEU") reached an agreement (the "Sponsorship Agreement") to sponsor a pension plan to operate separately from the PSPPlan for members of OPSEU, the Amalgamated Transit Union and the Ontario Liquor Control Board Employees' Union, and certain members of the Canadian Union of Public Employees. The OPSEU Act was enacted in June, 1994 by the Province to give effect to the Sponsorship Agreement and to create the Ontario Public Service Employees' Union Pension Plan (the "OPSEU Plan")

The benefits for all pensioners and deferred pensioners who terminated before January 1, 1993 and for all other PSPPlan members continue to be covered by the PSPPlan.

The Sponsorship Agreement, the OPSEU Act and a Sponsorship Amendment and Asset Transfer Agreement specified how the assets and liabilities of the OPSEU Plan were to be determined and transferred from the PSPPlan to the OPSEU Plan. The amount to be transferred was calculated based on the proportionate share of assets and actuarial liability which could be attributed to the OPSEU Plan members as at December 31, 1992. The total amount of assets transferable to the OPSEU Plan including marketable assets and Special Province of Ontario Debentures as at December 31, 1994 was \$4.381 billion.

The total amount of marketable assets transferable to the OPSEU Plan as at December 31, 1994 was estimated to be \$2.404 billion. This was satisfied in an orderly and cost effective manner by making cash advances prior to year end totalling \$553 million, and transferring cash and bonds in early January 1995.

The total book value of the Special Province of Ontario Debentures issued to the OPSEU Pension Plan as at December 31, 1994 was \$1.977 billion, including accrued income of \$108 million. Each series of debentures was divided between the two Plans on a prorata basis in January 1995.

The actuarial value of the assets (Note 9) transferred to the OPSEU Plan was approximately \$5.105 billion and actuarial value of the accrued pension benefits assumed was approximately \$6.168 billion.

The amounts of assets transferable to the OPSEU Plan are estimates, based on information known and assumptions made as at December 31, 1994. The amounts are subject to adjustment as further information becomes available. A second adjustment is expected to be made prior to June 30, 1995. The final adjustment is currently scheduled for April 1996. This will incorporate the results of a Provincial project to review the membership database of both plans.



Although the OPSEU Act established the OPSEU Plan retroactive to January 1, 1993, the Board was required by the OPSEU Act to act as agent for the OPSEU Plan until December 31, 1994. The Board thus retained possession of a co-mingled investment portfolio, received investment income and contributions, and incurred expenses on behalf of both plans until December 31, 1994. Accordingly, these financial statements present the combined financial results of both plans during the year. The amounts transferable to the OPSEU Plan are reflected as a payable in these financial statements.

Proforma information for the remainder of the PSPPlan is presented in Schedule 1 for information purposes.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a) Basis of Presentation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and present the position of the PSPPlan as a separate entity independent of the employers and plan members.

b) Principles of Consolidation

The accounts of wholly-owned subsidiaries are included on a consolidated basis.

c) Investments

Traded investments are stated at market value based on year end market prices. Short-term investments are carried at amortized cost. Special Province of Ontario Debentures, which are non-marketable, are recorded at face value (see Note 5). Real estate is valued at market, determined on the basis of acquisition cost. In future years it will be valued on an appraised basis. Gains and losses on the disposal of investments are credited or charged to investment income.

d) Contributions

Contributions from members and employers which are due to the PSPPlan at year end are recorded as receivable. Contributions and matching contributions from purchases of credit for prior employment and transfers are recorded when cash is received. Interim payments from the Province are recorded in the year in which they are received.

e) Pensions

Payments of pensions, refunds and transfers are recorded in the year in which they are made.

f) Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the fixed assets as follows:

Computer equipment	5 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions.

*Notes to the Consolidated Financial Statements (continued)*

The market value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end. The resulting unrealized gain or loss is included in the consolidated statement of changes in net assets available for benefits.

**5. INVESTMENTS**

(in thousands of dollars)	1994		1993	
	Market Value	Cost	Market Value	Cost
<b>Canadian</b>				
Cash and short term investments	\$ 709,312	\$ 709,107	\$ 648,047	\$ 647,896
Advances to OPSEU Plan	552,853	552,853		
Bonds	2,456,401	2,583,766	2,381,094	2,253,081
Equities	464,116	419,290	462,172	394,683
Canadian Investments	4,182,682	4,265,016	3,491,313	3,295,660
<b>Foreign</b>				
Cash and short term investments	25,323	25,355	117,333	117,794
Bonds	156,206	156,677	403,377	390,788
Equities	1,276,690	1,090,932	1,213,019	1,008,392
Foreign Traded Investments	1,458,219	1,272,964	1,733,729	1,516,974
<b>Special Province of Ontario</b>				
Debentures	5,865,247	5,865,247	5,961,455	5,961,455
<b>Real Estate, net</b>				
	274,746	274,746		
<b>TOTAL INVESTMENTS</b>	<b>\$11,780,894</b>	<b>\$11,677,973</b>	<b>\$11,186,497</b>	<b>\$10,774,089</b>

The Special Province of Ontario Debentures, which are non-marketable, are recorded at their aggregate face value of \$5.865 billion. By discounting cash flows based on year end market yields of comparable bonds, a value of \$7.004 billion can be determined.

There are currently 34 Special Province of Ontario Debentures maturing over the next 20 years with a weighted average interest rate of 11.41%.

The PSPPlan was required to transfer certain assets to a newly established OPSEU Plan. A total of \$553 million was advanced to the OPSEU Plan prior to December 1994 (see Note 3).

During the year, the Board acquired the following percentage interests in regional shopping centres:

Brentwood Mall, Burnaby, BC	50%	Marlborough Mall, Calgary, AB	100%
Carlingwood Mall, Ottawa, ON	100%	Halifax Centre, Halifax, NS	50%
Lougheed Mall, Burnaby, BC	50%	Pen Centre, St. Catharines, ON	50%

The properties are held by wholly-owned subsidiary companies.



**6. FIXED ASSETS**

		1994		1993
(in thousands of dollars)	Cost	Accumulated Depreciation	Net	Net
Computer equipment	\$2,622	\$1,527	\$1,095	\$1,396
Leasehold improvements	780	225	555	1,025
Furniture and fixtures	<u>497</u>	<u>191</u>	<u>306</u>	<u>464</u>
<b>TOTAL FIXED ASSETS</b>	<b>\$3,899</b>	<b>\$1,943</b>	<b>\$1,956</b>	<b>\$2,885</b>

**7. NET INVESTMENT INCOME**

(in thousands of dollars)	1994	1993
<b>Interest Income</b>		
Special Province of Ontario Debentures	\$ 674,850	\$ 684,000
Cash and short term investments:		
Canadian	38,146	23,859
Foreign	4,318	3,247
Bonds:		
Canadian	199,495	188,801
Foreign	<u>20,576</u>	<u>18,205</u>
<b>Total Interest Income</b>	<b>937,385</b>	<b>918,112</b>
<b>Dividend Income</b>		
Canadian	11,678	9,950
Foreign	<u>33,369</u>	<u>25,012</u>
<b>Total Dividend Income</b>	<b>45,047</b>	<b>34,962</b>
<b>Real Estate</b>	<b>11,289</b>	
<b>Realized gain on investments</b>	<b>94,264</b>	<b>140,096</b>
<b>Total Investment Income</b>	<b>1,087,985</b>	<b>1,093,170</b>
Investment management and custodial fees	(7,211)	(6,224)
<b>NET INVESTMENT INCOME</b>	<b>\$1,080,774</b>	<b>\$1,086,946</b>

## 8. CONTRIBUTIONS

(in thousands of dollars)	1994	1993
<b>Members</b>		
Current service	\$ 217,007	\$ 268,481
Prior Service	<u>8,678</u>	<u>10,348</u>
	<b>225,685</b>	<b>278,829</b>
<b>Employers</b>		
Current service	72,107	282,461
Prior service	2,467	10,231
Interest	1,309	1,166
Interim payments received on account of unfunded liability	<u>36,269</u>	<u>115,504</u>
	<b>112,152</b>	<b>409,362</b>
<b>Transfers from other plans</b>	<b>5,484</b>	<b>6,715</b>
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 343,321</b>	<b>\$ 694,906</b>

Contributions received in connection with future periods have been deferred on the Consolidated Statement of Net Assets Available for Benefits.

The terms of the PSPPlan, including contribution requirements, are set out in the PSPAct and summarized in Note 2. During 1994, the Province passed legislation to temporarily reduce these contributions for a three-year period commencing April 1, 1994 and concluding March 31, 1997.

The Province reduced employer contributions otherwise payable by set dollar amounts for each annual period ending March 31, 1994, 1995 and 1996. Reductions were applied first to "special payments", primarily interim payments otherwise receivable on account of unfunded liabilities, and the remainder to reduce contributions otherwise receivable. These amounts were set out for the PSPPlan and the new OPSEU Plan (see Note 3). The estimated reductions applicable to the remainder of the PSPPlan for each year, beginning April 1, are as follows:

(in thousands of dollars)	
1994	<b>\$169,788</b>
1995	<b>\$173,602</b>
1996	<b>\$176,125</b>

Further, the Province reduced contribution levels by 1% of salaries for the period April 1, 1994 to March 31, 1995 for employers and April 1, 1994 to March 31, 1997 for employees.

No accrual has been made for amounts due to the OPSEU Plan at December 31, 1994, as they will be received directly by that Plan.



## 9. OBLIGATIONS FOR PENSION BENEFITS

In accordance with the PSPAct, an initial actuarial valuation of the PSPPlan was completed by the Board's actuaries, William M. Mercer Ltd. ("Mercer"), as at January 1, 1990 which was, with the agreement of the Chair of the Management Board of Cabinet and the Treasurer of Ontario, filed with the Pension Commission of Ontario and Revenue Canada. This valuation disclosed an initial unfunded actuarial liability of \$2.494 billion as at January 1, 1990 based on a liability of \$11.349 billion and assets of \$8.855 billion. The Province was required to fund the initial unfunded liability by monthly payments over 40 years. These monthly payments were estimated as a constant percentage of projected future earnings of members. Due to this method, the actual unfunded liability will steadily increase until 2014 before declining.

In April, 1994, Mercer completed an actuarial valuation of the PSPPlan which showed an unfunded liability of \$2.678 billion as at December 31, 1992, reflecting an experience gain of \$329 million. In accordance with the PSPAct, this experience gain resulted in an adjustment to the schedule for funding the unfunded liabilities.

Mercer has produced an estimate of the actuarial obligation as at December 31, 1994 combined for the two plans (see Note 3). This estimate projects the amounts in the December 31, 1992 valuation for 24 months and takes into account known events that will affect the experience in the plans. This estimate is calculated as follows:

(in thousands of dollars)

Actuarial present value of accrued pension obligations at December 31, 1992	<b>\$ 14,807,131</b>
Interest on accrued benefits	<b>2,300,628</b>
Benefits accrued	<b>1,094,932</b>
Benefits paid	<b>(1,198,772)</b>
Estimated effect of the Province's initiatives (see below)	<b>648,779</b>
Actuarial present value of estimated pension obligations at December 31, 1994	<b>\$ 17,652,698</b>

In addition, Mercer also produces an estimate of the actuarial value of the assets on a basis consistent with the valuation of the pension obligations. This calculation recognizes the value of the Special Province of Ontario Debentures on a discounted basis and provides for averaging of realized and unrealized gains on other investments. The actuarial value of the assets for both plans on a combined basis was estimated as \$14.165 billion at December 31, 1994, which, when compared to the actuarial obligation above, results in a total unfunded liability of \$3.488 billion.

This valuation estimate reflects the impact on the plans of recent initiatives by the Province. These factors include the "Factor 80" program, which has been extended to the year 2000 (see Note 10), the planned reductions in contributions under legislative changes made in 1994 (see Note 8) and a provision for the effects of estimated experience gains related to salary restraint programs during 1993 and 1994.

As set out in Note 3, the Board was required to transfer certain assets to a newly established OPSEU Plan. The method of computation of the actuarial obligation assumed by the OPSEU Plan and to the remainder of the PSPPlan was specified in the Sponsorship Agreement and the OPSEU Act. The actuarial liability for the remainder of the PSPPlan as of December 31, 1994, is estimated to be \$11.485 billion. The estimated actuarial value for the remainder of the PSPPlan's assets is \$9.060 billion after allowing for the transfer of assets to the OPSEU Plan. This results in a total estimated unfunded liability for the remainder of the PSPPlan of \$2.425 billion. The Board has commissioned Mercer to perform a full actuarial valuation for the remainder of the PSPPlan at December 31, 1994, giving effect to the transfers required to be made to the OPSEU Plan. This valuation is in progress. Thereafter, as required by the Pension Benefits Act (Ontario) and the Income Tax Act (Canada), actuarial valuations will be performed at least every three years.

The foregoing information was computed following the method of valuation required under the PSPAct, and it is this method upon which funding decisions must be based. However, the Board is also required by the Pension Benefits Act to report under the reporting standard set by The Canadian Institute of Chartered Accountants ("CICA") which requires that pension obligations be calculated using best estimate assumptions and the projected benefit method pro-rated on services. Using this method the present value of estimated pension obligations as at December 31, 1994, after deduction of the transfers to the OPSEU Plan, would be \$9.631 billion.

## **10. FACTOR 80 EARLY RETIREMENT PROGRAM**

In 1993 and again in 1994, the PSPPlan was amended to include a provision for an enhanced retirement opportunity for certain members of the pension plan. The amendment allows an unreduced pension for those members whose age and years of credit in the PSPPlan totalled 80 years. Members are eligible for this program if they achieve the 80 Factor prior to April 1, 2000 and elect, within certain time frames, to retire.

The liability of the continuing PSPPlan arising from the Factor 80 Early Retirement Option is estimated at \$315 million as at December 31, 1994. It is anticipated that this liability will be largely offset by certain experience gains arising from the impact of salary restraints and lower than assumed inflation rates. Any additional liability not so offset must be funded over the 15 years commencing in 1997.

## **11. ONTARIO PROVINCIAL POLICE EARLY RETIREMENT BENEFIT**

Under the PSPPlan, the Board is required to report annually on the early retirement benefit provided by the PSPPlan to members who are employed by the OPP. This early retirement benefit is available to OPP members who are 50 years of age and have 30 years of credit in the PSPPlan. OPP members contribute 2% of their salary to the PSPPlan in addition to the regular contribution amount. This contribution is matched by the employer.

The position of the OPP early retirement benefit was included in the actuarial valuation as at December 31, 1992. Since the Plan did not allow accumulation of pension credit to exceed 35 years, prior valuations assumed that any member reaching 35 years credit retires immediately. In December 1991, in order to comply with the changes in the Income Tax Act, the Board removed the 35-year pension credit limit for service after December 31, 1991. The Board's actuaries thus removed the assumption that any member reaching 35 years pension credit retires immediately and included the results of the new December 31, 1992 valuation.



## Notes to the Consolidated Financial Statements (continued)

Increasing the assumed age of retirement for the majority of Plan members resulted in a significant reduction in the actuarial liability for the Plan as a whole. The OPP benefit contemplates a much earlier retirement date for OPP members. The additional cost of the OPP benefit is thus largely dependent on the differences between the ages of retirement assumed for the majority of members and those of OPP members.

Although the removal of the 35-year assumption resulted in a significant increase in the actuarial value of future benefits for the OPP program, a major part of the increased liability has been offset by the fact that:

- a) the Factor 80 early retirement program introduced by the Province, as explained in Note 10, has been extended to the OPP, and the additional cost of the OPP members retiring under the 50 and 30-year-provision will be charged to the Factor 80 early retirement program; and
- b) the actual salary increases in 1993 and 1994 were lower than assumed in the 1992 valuation.

The value of projected future contributions and benefits included in the December 31, 1992 actuarial valuation was updated to reflect the above, and the actual contributions received and benefit payments made during the period to December 31, 1994. This method produces a reasonable estimate of the financial position of this benefit according to the Board's actuaries.

The status of the OPP early retirement benefit as at December 31, 1994, after providing the employer's special contribution holiday was as follows:

(in thousands of dollars)

Assets allocated to payment of OPP early retirement benefit	\$ 28,592
Actuarial value of future contributions from OPP members and employer	<u>52,252</u>
	80,844
<hr/>	
Actuarial obligation of future OPP retirements	(80,076)
<hr/>	
Assets available in excess of obligations	\$ 768
<hr/>	

## 12. OPERATING EXPENSES

(in thousands of dollars)	1994	1993
Salaries and benefits	\$ 6,876	\$ 7,082
Office premises and operations	2,372	2,028
Computer and professional services	1,492	1,730
Depreciation	722	625
Communications	344	341
Audit	123	117
Training and travel	56	111
Publications, registration and filing fees	85	93
<b>TOTAL OPERATING EXPENSES</b>	<b>\$12,070</b>	<b>\$12,127</b>

## 13. COMMITMENTS

The Board is committed under a lease for office premises at One Financial Place, Toronto, at an annual net rental of approximately \$500 thousand until the year 2002.





## **SCHEDULE OF SIGNIFICANT INVESTMENTS**

**As at December 31, 1994**  
(in thousands of dollars)

	<b>Market Value \$</b>	<b>Cost \$</b>
<b>Province of Ontario</b>		
Non-Marketable Special Debentures	5,865,247	5,865,247
Bonds	118,560	123,393
Short term investments	<u>13,529</u>	<u>13,529</u>
	5,997,336	6,002,169
<b>Government of Canada</b>		
Bonds	1,563,135	1,655,244
Short term investments	<u>486,635</u>	<u>486,585</u>
	2,049,770	2,141,829
<b>Ontario Hydro</b>		
Bonds	264,975	276,009
Short term investments	<u>5,142</u>	<u>5,142</u>
	270,117	281,151
<b>Government of British Columbia</b>		
Bonds	131,056	138,197
Short term investments	<u>72,614</u>	<u>72,614</u>
	203,670	210,811

Real Estate investments include interests in six shopping centres located in Nova Scotia, Ontario, Alberta, and British Columbia.



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## SPONSORS

In 1994, the Board served the needs of over 88,000 contributing members and 40,000 pensioners who are currently or were previously employed in the following Ministries, Agencies, Boards and Commissions of the Province.

Ministry of Agriculture and Food  
Ministry of the Attorney General  
Ministry of Citizenship  
Ministry of Community and Social Services  
Ministry of Consumer and Commercial  
Relations  
Ministry of Culture, Tourism and Recreation  
Ministry of Education and Training  
Ministry of the Environment and Energy  
Ministry of Finance  
Ministry of Health  
Ministry of Housing  
Ministry of Economic Development and Trade  
Ministry of Intergovernmental Affairs  
Ministry of Labour  
Ministry of Municipal Affairs  
Ministry of Natural Resources  
Ministry of Northern Development and Mines  
Ministry of the Solicitor General and  
Correctional Services  
Ministry of Transportation  
Minister Responsible for Francophone Affairs  
Minister Responsible for Native Affairs  
Minister Responsible for Women's Issues

Addiction Research Foundation  
Algonquin Forestry Authority  
Cabinet Office  
Go Transit  
Legislative Assembly of Ontario  
Liquor Control Board of Ontario  
Management Board Secretariat  
Niagara Parks Commission  
Nishnawbe-Aski Police Services  
Office for Disability Issues  
Office for the Greater Toronto Area  
Office of the Provincial Auditor  
Office for Seniors' Issues  
Ombudsman Ontario  
Ontario Anti-Racism Secretariat  
Ontario Arts Council  
Ontario Casino Corporation  
Ontario Housing Corporation  
Ontario Human Rights Commission  
Ontario Lottery Corporation  
Ontario Pension Board  
Ontario Provincial Police  
Ontario Waste Management Corporation  
Teachers' Pension Plan Board  
Workers' Compensation Appeals Tribunal  
Workplace Health and Safety Agency



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Ontario Pension Board

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Corporate Executive  
Management Board Secretariat

ROBERT CHRISTIE  
Associate Secretary of  
Treasury Board  
Ministry of Finance

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Ontario Pension Board

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Former Vice-President  
Human Resources, Chrysler Canada Ltd.  
Honorary Professor, University of  
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Administration

SGT. R. GRANT SCHARF  
Former Chief Executive Officer  
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HUMAN RESOURCES

INVESTMENT

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The goal of the Ontario Pension Board is to excel in the provision of pension benefits by delivering the highest quality service to its members, pensioners and sponsors at the lowest cost, and by obtaining the maximum return on investments with a minimum of risk. This goal is being achieved through progressive human resource practices that encourage the initiative, innovation and participation of all staff.

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